

carrier may, as an alternative, use the projected life of plant at age zero filed for approval in that proceeding, subject to final Commission action on represcription proposal.)

- 2) For a carrier seeking approval of an alternative regulatory plan under Section 13-506.1 of the Act, the Commission shall make a finding of, or adopt a methodology for determining the projected life of plant at year zero underlying the carrier's rates of depreciation for purposes of this Part in any order approving an alternative regulatory plan.

b) Cost of capital.

- 1) The cost of capital associated with an investment shall be the weighted average of the carrier's costs of debt and equity applied to the net investment. The development of this component shall be based upon the current amount and weighted cost of debt. Carriers shall use the cost of equity approved by the Commission in the carrier's last rate case. (For purposes of a cost study submitted in a rate proceeding in which the telecommunications carrier is presenting evidence on its cost of capital, the telecommunications carrier may, as an alternative, base the return components upon the costs submitted in the proceeding, subject to the final Commission action on such issue.)
- 2) For a carrier seeking approval of an alternative regulatory plan under Section 13-506.1 of the Act, the Commission shall make a finding of, or adopt a methodology for determining the carrier's cost of equity for purposes of this Part in any order approving an alternative regulatory plan.

- c) Federal, state, and local income taxes. The Federal, state, and local income tax expenses shall be determined based on rates which are expected to be in effect at the time of the cost study development for the service. Since Federal, state, and local taxes are applicable, recognition shall be given to the "tax-on-tax" situation that results from the deductibility of state and local tax when Federal taxes are paid.
- d) Maintenance. Maintenance costs are those costs incurred to keep equipment resources in usable condition and the cost incurred to rearrange cable or other facilities, if

applicable. In calculating the cost of a service, the carrier may use an investment-related annual maintenance factor to arrive at an annual maintenance cost estimate or service-specific maintenance cost for the service. If a maintenance factor is used, the factor shall be specific to Investment and Expense accounts associated with the service. Maintenance costs may be based upon historical costs if it can be demonstrated that those historical costs are relevant to the study of forward-looking costs.

- e) Ad valorem taxes. For telecommunications services, an ad valorem tax factor shall be applied against investment. This factor shall be based on the quotient of the most current ad valorem taxes paid by the carrier divided by the carrier's total current investment.
- f) Other costs. Other service-specific costs shall be identified and attributed to particular services or groups of services and included in the cost study of those services or groups of services. These costs may be based upon historical costs if it can be demonstrated that those historical costs, in particular the estimated labor hours, are relevant to the study of forward-looking costs. In the case of labor costs, the carrier shall provide a breakdown of these costs to reflect loaded labor rates and estimated labor hours.

Section 791.90 Subsidy Tests

- a) A service is not being subsidized if the total revenue resulting from the service equals or exceeds the long-run service incremental cost of providing that service.
- b) A group of services is not being subsidized if the total revenue resulting from the group of services equals or exceeds the long-run service incremental cost of providing that group of services.

Section 791.100 Required LRSIC Filings

- a) An LRSIC study shall be filed with the Commission under the following circumstances:
 - 1) For the service when a carrier offering or providing noncompetitive services files a tariff to reclassify a previously noncompetitive service as competitive;

- 2) For the service when a carrier offering or providing noncompetitive services files a tariff classifying a new service as competitive;
- 3) For the facilities and functionalities that are not specifically tariffed and are utilized in providing a service subject to the requirements of Section 13-505.1 of the Act, when a tariff for a subject service is filed;
- 4) For all noncompetitive services in any proceeding under Section 13-506.1 of the Act to implement an alternative form of regulation;
- 5) For a service when the Commission requests an LRSIC study in order to establish just and reasonable rates for such service.

Section 791.200 Aggregate Revenue Test for Competitive Services

- a) The competitive services of a carrier that provides both competitive and noncompetitive services shall provide revenues which equal or exceed the sum of the following:
 - 1) The sum of the LRSIC's of all competitive services, less the LRSIC's of noncompetitive tariffed elements that are imputed into the costs of services subject to imputation;
 - 2) The sum of the imputed costs of the noncompetitive tariffed elements that are inputs to competitive services subject to imputation; and
 - 3) The common costs that are to be allocated to competitive services pursuant to the relative LRSIC method. The portion of common costs that shall be recovered by competitive services in the aggregate shall be equal to the ratio of the amount in subsection (a)(3)(A) to the amount in subsection (a)(3)(B):
 - A) The sum of the LRSIC's of all competitive services, less the LRSIC's of noncompetitive tariffed elements that are imputed into the costs of services subject to imputation; and
 - B) The sum of the LRSIC's of all noncompetitive and competitive services of the carrier.

- b) The aggregate revenue test shall be provided in the following proceedings:
- 1) In any proceeding approving, implementing, or evaluating an alternative form of regulation under Section 13-506.1 of the Act;
 - 2) In a general rate case;
 - 3) In a proceeding involving the introduction of a new competitive telecommunications service;
 - 4) In a proceeding to reclassify a non-competitive telecommunications service to competitive;
 - 5) Notwithstanding the provisions of subsections (b)(1), (2), (3), and (4) of this Section, and upon good cause shown, the aggregate revenue test shall be provided, upon motion of a party and order of the Hearing Examiner, in any other proceeding approving, investigating or establishing rates, charges, classifications or tariffs for telecommunications services offered by a telecommunications service provider that provides both competitive and non-competitive services. Any motion requesting an aggregate revenue test shall be filed within thirty days of the docketing of the underlying proceeding. Responses to such motions shall be filed within fourteen days of the filing of the motion. Failure to file the motion within thirty days of the docketing of the proceeding shall be an independent ground for denying the motion. Failure to file responses within fourteen days of the filing of the motion shall be an independent ground for granting the motion. Factors to be considered in determining the propriety of granting such a motion shall include but not be limited to:
 - A) The length of time elapsed since the LEC last filed an aggregate revenue test;
 - B) The revenues projected to be generated by the service or services under consideration compared with total company service revenues;

- C) The number of competitive and non-competitive services currently being offered by the LEC; and
 - D) The cost associated with performing the aggregate revenue test.
- c) The carrier may file a petition pursuant to 83 Ill. Adm. Code 200 for a waiver of the requirement to use the methodology required by subsection (a) (3) to apportion costs common to the provision of both competitive and noncompetitive services. The waiver shall be granted within 90 days after the filing of a petition for waiver if the carrier can demonstrate that using the methodology required by subsection (a) (3) would be cost prohibitive or, in accordance with subsection (b) (3), would prevent a carrier from offering the new competitive service. To comply with Section 13-507 requiring a telecommunications carrier providing both competitive and noncompetitive services to recover the aggregate LRSIC's of its competitive services plus a proper and reasonable apportionment of common costs, a substitute allocator is required. The burden of proving the reasonableness of a substitute common cost allocation methodology shall be upon its proponent. The Commission reserves the right to authorize the use of superior methodologies apportioning common costs should they arise.
- d) For a carrier seeking approval of an alternative regulatory plan under Section 13-506.1 of the Act, the Commission shall make a finding of, or adopt a methodology for determining, the amount to be allocated for purposes of Section 791.200(a)(3) in any order approving an alternative regulatory plan.
- e) For the purposes of complying with Section 791.200 (a) (3), (4) and (5), any carrier with more than 25,000 access lines that earns gross annual revenues of less than \$100,000,000 shall have 18 months from the effective date of this Part to comply with Sections 791.40, 791.50, 791.60, 791.70 and 791.80. In lieu of preparing a LRSIC study, the carrier may provide alternative cost data. Nothing herein shall relieve such carriers from the requirements of Section 13-507 of the Act.

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Illinois Commerce Commission :
On Its Own Motion :
Implementation of Section : 92-0211
13-507 of the Public Utilities :
Act, as amended by P.A. 87-856 :

ORDER

By the Commission:

On August 17, 1994, the Illinois Commerce Commission ("Commission") entered an order authorizing the submission to the Secretary of State of the first notice of proposed rules for 83 Ill. Adm. Code 791, "Cost of Service." The proposed rules will establish the principle of cost causation and delineate the requirements of the studies mandated by Section 13-507 of the Public Utilities Act. The procedural history of this docket is detailed in the order entered on August 17, 1994.

The proposed rules were published in the *Illinois Register* on September 9, 1994, initiating the first notice period pursuant to Section 5-40(b) of the Illinois Administrative Procedure Act. Comments were filed by Central Telephone Company of Illinois ("Centel"), GTE North Incorporated ("GTE North"), and AT&T Communications of Illinois, Inc. ("AT&T").

Centel suggested that the Commission eliminate aggregate revenue tests that it alleges are unnecessary by deleting Section 791.200(b)(3) and (4). Centel also requested that the Commission streamline the waiver provision by, (a) modifying the standard in Section 791.200(c) for granting a waiver, (b) clarifying Commission discretion to approve use of other apportionment methods, and (c) reducing the waiting period for waiver review from 90 days to 45 days and provide for waiver approval if it is not denied within that time. Centel provided suggested language changes to implement its comments.

GTE North suggested that the language for Section 791.200(b) that appeared in the Hearing Examiner's Proposed Order be substituted for the first notice language published in the *Illinois Register*.

AT&T filed comments supporting the first notice language as submitted by the Commission, analyzing each point raised by Centel and GTE North and rebutting same. AT&T did agree, however, that language should be added to Section 791.200(c) to cover situations in which there is Commission inaction on a request for waiver.

The Commission has examined the comments of Centel, GTE and AT&T. The issues of the applicability of the aggregate revenues test and the cost prohibitive standard relating to requests for waivers from filing the aggregate revenues test were fully discussed in the Commission's first notice Order in this docket. The comments of Centel and GTE do not raise any new issues or arguments concerning these matters and the Commission rejects the proposed modifications relating to these sections of the rule.

Centel's comments concerning Section 791.200(c) relate to the Commission's reservation of the opportunity to authorize the use of superior methodologies of apportioning common costs should they arise. Centel apparently fears that a company seeking a waiver of the filing of the aggregate revenues test might be required to prove that the allocation methodology it wish to utilize was "superior" to the relative LRSIC allocation methodology adopted by the Commission in the Rule. The "superior methodologies" language was added to the Rule by the Commission only as an indication that future developments may cause the Commission to order an allocation methodology other than relative LRSIC or one proposed by a company in a given case. The Commission finds Centel's concerns unfounded and declines to modify the rule as proposed.

The final issue addressed by all commenting parties relates to the 90-day period for Commission approval of a waiver request. Centel and GTE contend that the period is too long and should be reduced to 45 days. Centel and GTE also urge that the rule be modified to provide that failure to act on a request for a waiver within the time period result in the waiver being granted. AT&T indicated its willingness to accept a shortened time period but opposed the suggested modification relating to the effect of the failure of the Commission to act. AT&T indicated its preference that the rule be modified to require the Commission to issue an Order indicating whether the waiver had been granted or denied.

The Commission declines the changes suggested. In terms of the 90-day maximum for action, the Commission notes that, in a contested case, a motion or petition for waiver may require, inter alia, the filing of the request, an opportunity for responses from Staff and other parties, the taking and cross examination of evidence, the preparation and circulation of a proposed Order, exceptions and replies thereto, the preparation of a final Order and Commission action thereon. While the Commission is confident that, in the vast majority of cases, action will come much more quickly than 90 days from filing, prudence requires allowing more than 45 days for the deliberative process. Similarly, the Commission is convinced that the deliberative process involved in reaching a decision on granting waivers in a given case is sufficiently complex that the rule should not be modified to

provide for the automatic granting of a requested waiver, if action does not occur within a specific time.

There have been no further hearings held. The only changes in the proposed rules are in response to technical and stylistic suggestions from the Secretary of State. With the end of the statutorily-mandated first notice period, the Commission can now submit the second notice of the proposed rules to the Joint Committee on Administrative Rules.

The Commission, having considered the entire record and being fully advised in the premises, is of the opinion and finds that:

- (1) the Commission has jurisdiction over the parties hereto and the subject matter herein;
- (2) the recitals of fact set forth in the prefatory portion of this Order are supported by the record and are hereby adopted as findings of fact;
- (3) the proposed rules for 83 Ill. Adm. Code 791, as reflected in the attached Appendix, should be submitted to the Joint Committee on Administrative Rules to begin the second notice period.

IT IS THEREFORE ORDERED by the Illinois Commerce Commission that the proposed rules for 83 Ill. Adm. Code 791, as reflected in the attached Appendix, be submitted to the Joint Committee on Administrative Rules, pursuant to Section 5-40(c) of the Illinois Administrative Procedure Act.

IT IS FURTHER ORDERED that this order is not final and is not subject to the Administrative Review Law.

By order of the commission this 17th day of May, 1995.

(SIGNED) Dan Miller

Chairman

(S E A L)

TITLE 83: PUBLIC UTILITIES
CHAPTER I: ILLINOIS COMMERCE COMMISSION
SUBCHAPTER f: TELEPHONE UTILITIES

PART 791
COST OF SERVICE

Section

- 791.10 Carriers Subject to Cost Rules
- 791.20 Terminology
- 791.30 Cost Causation Principle
- 791.40 Methods and Assumptions
- 791.50 Cost Study Component Presentation
- 791.60 General Cost Study Components
- 791.70 Investment-related Cost Study Components
- 791.80 Annual Cost Study Components
- 791.90 Subsidy Tests
- 791.100 Required LRSIC Filings
- 791.200 Aggregate Revenue Test for Competitive Services

AUTHORITY: Implementing Section 13-507 and authorized by Section 10-101 of the Public Utilities Act (~~Ill. Rev. Stat. 1991, ch. 111 2/3, pars. 13-507 and 10-101, as amended by P.A. 87-856, effective May 14, 1992~~)[220 ILCS 5/13-507 and 10-101].

SOURCE: Adopted at Ill. Reg. , effective .

Section 791.10 Carriers Subject to Cost Rules

This Part applies to telecommunications carriers providing both competitive and noncompetitive services, except those carriers that are specifically exempted in Section 13-504(b) of the Act. See Sections 13-202, 13-209, and 13-210 of the Public Utilities Act ("Act") (~~Ill. Rev. Stat. 1991, ch. 111 2/3, pars. 13-202, 13-209, and 13-210, as amended by P.A. 87-856, effective May 14, 1992~~)[220 ILCS 5/13-202, 13-209, and 13-210].

Section 791.20 Terminology

- a) The long-run service incremental cost of a service ("LRSIC") is the forward-looking additional cost(s) incurred by the telecommunications carrier ("carrier") to provide the entire output of a service, including additional resources such as labor, plant, and equipment. Long-run service incremental cost excludes any costs, including common costs, that would be incurred if the service is not produced.
- b) Long-run costs are the economic costs over a planning horizon long enough so that there are no sunk inputs or costs.

- c) Forward-looking costs are the costs to be incurred by a carrier in the provision of a service. These costs shall be calculated as if the service were being provided for the first time and shall reflect planned adjustments in the firm's plant and equipment. Forward-looking costs ignore embedded or historical costs; rather, they are based on the least cost technology currently available whose cost can be reasonably estimated based on available data.
- d) Volume-insensitive costs are costs that do not vary with changes in output.
- e) Volume-sensitive costs are costs that vary with changes in output of a particular service.
- f) A group of services that is referenced in this Part consists of those services that share a common network technology, element, or business function that is necessary and unique to the provision of all services in the group, and where that common network technology, element, or business function cannot be attributed to any one service or subgroup of services in the group.
- g) LRSIC of a group of services: Where additional resources are used in common and are necessary to provide a group of services, the long-run service incremental cost of that group of services includes the cost caused by the portion of such additional resources used solely by that group of services, including the LRSIC's of the individual services. Resources include labor, plant, and equipment.
- h) Common costs are those costs that a carrier must incur in order to operate that are not directly attributable to any particular service or to any group of services smaller than the group of services consisting of all the services of the carrier.
- i) Ad valorem taxes are those which are levied on the value of plant as determined by a governmental taxing authority (e.g., local property taxes levied against telephone plant).
- j) Capital costs are the recurring costs that result from expenditures for plant facilities which are capitalized. These annual capital costs include depreciation, cost of capital (return), and income taxes.

- k) Expenses are the cost or resources consumed in the production of revenue that are expensed rather than capitalized in accordance with the Uniform System of Accounts applicable to the carrier (83 Ill. Adm. Code 710).
- l) Investment is a long-term capital asset (normally with a life exceeding one year) which is depreciated rather than expensed in accordance with the Uniform System of Accounts applicable to the carrier (83 Ill. Adm. Code 710).
- m) Recurring costs are costs which will continue throughout the revenue producing life of the service. They include capital costs and expenses.
- n) Usable capacity is the maximum physical capacity of the equipment or resource less any capacity required for maintenance, testing or administrative purposes.

Section 791.30 Cost Causation Principle

Costs shall be attributed to individual services or groups of services based on the following cost causation principle. Costs are recognized as being caused by a service or group of services if:

- a) The costs are brought into existence as a direct result of providing the service or group of services; or
- b) The costs are avoided if the service or group of services is not provided.

Section 791.40 Methods and Assumptions

- a) The methodology and assumptions in this Part apply to cost studies required by this Part and the Act.
- b) Nothing in this Part shall require a carrier in any LRSIC study to account for, allocate, apportion, assign or reflect costs in any manner inconsistent with the Uniform System of Accounts (83 Ill. Adm. Code 710) or the Federal Communications Commission's Uniform System of Accounts (47 CFR 32).
- c) Since LRSIC represents a measurement of the costs to a carrier of providing a service or group of services on a prospective basis over a planning horizon long enough to have no sunk inputs or costs, when determining the LRSIC

of a service or a group of services, use of the following assumptions and methods shall be presumed reasonable:

- 1) The LRSIC study shall be based upon the locations of, and planned locational changes to, the existing network configuration;
- 2) To the fullest extent possible, volume-insensitive costs shall be directly attributed to particular services or, where shared by a group of services, to that group of services, consistent with the cost causation principle;
- 3) Volume-sensitive costs shall be directly attributed to the service that causes the costs, consistent with the cost causation principle;
- 4) The LRSIC study shall reflect the demand for the entire service that is affected by the business or regulatory decision at hand. If the LRSIC study is for a new service, the study shall include all demand forecasts used in the computations.

Section 791.50 Cost Study Component Presentation

All cost studies provided by a carrier shall specifically identify the components outlined in Section 791.60 when such components are incurred and directly attributable to the service being studied. Further detail on each component shall be provided where identified.

Section 791.60 General Cost Study Components

- a) Service description. Each cost study shall include a definition of the service being studied. This definition shall be in terms of technical characteristics, functionality, application, targeted market, and availability. The elements of the service shall also be defined.
- b) Demand Information. The carrier shall provide the demand figures and/or forecast(s) used in the LRSIC computations and an explanation detailing the explicit and implicit assumptions and methods used to derive the figures and/or forecast(s). Demand forecasts for new services shall reflect total demand for the service, averaged over the projected revenue producing life of the service.
- c) Revenue life. Each cost study shall identify and provide a basis for the projected revenue producing life of the

service or group of services.

- d) Economic life. Each cost study shall identify and provide a basis for the projected economic life of the equipment involved in providing the service or group of services.
- e) Input prices. Each cost study shall reflect input prices (e.g., the prices for materials, labor, and capital) that the carrier is actually expected to face. The carrier shall provide the underlying bases for projected changes in input price levels, using, wherever possible, projections based on market expectations and rates set in labor contracts. Where appropriate, costs shall be based on prevailing vendor prices or vendor prices under consideration that reflect volume discounts or term discounts off listed input prices. These discounts shall be reflected in the cost study.
- f) Factors. Whenever any factors are used to estimate costs, such as maintenance or labor costs, the basis for those factors shall be described in an annual filing with the Director of the Telecommunications Section in the Public Utilities Division of the Illinois Commerce Commission. Factors shall be based upon historical costs only to the extent that it can be demonstrated that those historical costs are relevant to the study of forward-looking costs. Any deviations in individual cost studies from factors filed on an annual basis shall be identified and explained in each cost study.
- g) Volume-insensitive costs. To the fullest extent possible, volume-insensitive costs shall be directly attributed to particular services or, where shared by a group of services, to that group of services.
- h) Volume-sensitive costs. Volume-sensitive costs shall be directly attributed to the service that causes the costs.
- i) The cost study shall include all relevant service-specific start-up costs, including installation costs.

Section 791.70 Investment-related Cost Study Components

- a) Material. The material component of investment shall be based on the most recent vendor prices, reflecting applicable discounts and all applicable taxes, for the hardware and software resources required to provide the service. The carrier shall provide a breakdown of the

material involved in providing the service.

- b) Inventory and supply. The inventory and supply components shall reflect the costs to the company of inventory, administration, storage and delivery.
- c) Labor investment. The labor investment component shall consist of the labor required to install and put into service capital assets. The labor investment component shall be divided into two components, vendor-related and carrier-related labor investment. Vendor-related labor investment shall include billed installation and engineering. Carrier-related investment may be calculated based on either account averages or product specific plant engineering and installation hours. Total labor costs shall be computed by multiplying the account average or product specific work time by the appropriate labor hours. Hourly labor rates shall include the operational wages, benefits, paid absence, tools, and miscellaneous expenses.
- d) Utilization factors. The utilization factor measures the usable capacity of a capital resource pursuant to the definition of usable capacity in Section 791.20(e n). Investment shall be adjusted to reflect the usable capacity by dividing the dollar amount of investment by the utilization factor estimated pursuant to this Section.

Section 791.80 Annual Cost Study Components

- a) Depreciation.
 - 1) Depreciation shall represent the periodic recognition of investment cost as dictated by accounting rules (83 Ill. Adm. Code 710). Depreciation costs for a service shall be computed based upon the projected life of plant at age zero underlying the depreciation rates most recently approved by the Commission. (For purposes of a cost study submitted in a rate proceeding which includes a depreciation represcription proposal, a telecommunications carrier may, as an alternative, use the projected life of plant at age zero filed for approval in that proceeding, subject to final Commission action on represcription proposal.)
 - 2) For a carrier seeking approval of an alternative regulatory plan under Section 13-506.1 of the Act,

the Commission shall make a finding of, or adopt a methodology for determining the projected life of plant at year zero underlying the carrier's rates of depreciation for purposes of this Part in any order approving an alternative regulatory plan.

b) Cost of capital.

- 1) The cost of capital associated with an investment shall be the weighted average of the carrier's costs of debt and equity applied to the net investment. The development of this component shall be based upon the current amount and weighted cost of debt. Carriers shall use the cost of equity approved by the Commission in the carrier's last rate case. (For purposes of a cost study submitted in a rate proceeding in which the telecommunications carrier is presenting evidence on its cost of capital, the telecommunications carrier may, as an alternative, base the return components upon the costs submitted in the proceeding, subject to the final Commission action on such issue.)
- 2) For a carrier seeking approval of an alternative regulatory plan under Section 13-506.1 of the Act, the Commission shall make a finding of, or adopt a methodology for determining the carrier's cost of equity for purposes of this Part in any order approving an alternative regulatory plan.

c) Federal, state, and local income taxes. The Federal, state, and local income tax expenses shall be determined based on rates which are expected to be in effect at the time of the cost study development for the service. Since Federal, state, and local taxes are applicable, recognition shall be given to the "tax-on-tax" situation that results from the deductibility of state and local tax when Federal taxes are paid.

d) Maintenance. Maintenance costs are those costs incurred to keep equipment resources in usable condition and the cost incurred to rearrange cable or other facilities, if applicable. In calculating the cost of a service, the carrier may use an investment-related annual maintenance factor to arrive at an annual maintenance cost estimate or service-specific maintenance cost for the service. If a maintenance factor is used, the factor shall be specific to Investment and Expense accounts associated with the service. Maintenance costs may be based upon

historical costs if it can be demonstrated that those historical costs are relevant to the study of forward-looking costs.

- e) Ad valorem taxes. For telecommunications services, an ad valorem tax factor shall be applied against investment. This factor shall be based on the quotient of the most current ad valorem taxes paid by the carrier divided by the carrier's total current investment.
- f) Other costs. Other service-specific costs shall be identified and attributed to particular services or groups of services and included in the cost study of those services or groups of services. These costs may be based upon historical costs if it can be demonstrated that those historical costs, in particular the estimated labor hours, are relevant to the study of forward-looking costs. In the case of labor costs, the carrier shall provide a breakdown of these costs to reflect loaded labor rates and estimated labor hours.

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- a) An LRSIC study shall be filed with the Commission under the following circumstances:
 - 1a) For the service when a carrier offering or providing noncompetitive services files a tariff to reclassify a previously noncompetitive service as competitive;
 - 2b) For the service when a carrier offering or providing noncompetitive services files a tariff classifying a new service as competitive;
 - 3c) For the facilities and functionalities that are not specifically tariffed and are utilized in providing a service subject to the requirements of Section

13-505.1 of the Act, when a tariff for a subject service is filed;

- 4d) For all noncompetitive services in any proceeding under Section 13-506.1 of the Act to implement an alternative form of regulation;
- 5e) For a service when the Commission requests an LRSIC study in order to establish just and reasonable rates for such service.

Section 791.200 Aggregate Revenue Test for Competitive Services

- a) The competitive services of a carrier that provides both competitive and noncompetitive services shall provide revenues which equal or exceed the sum of the following:
 - 1) The sum of the LRSIC's of all competitive services, less the LRSIC's of noncompetitive tariffed elements that are imputed into the costs of services subject to imputation;
 - 2) The sum of the imputed costs of the noncompetitive tariffed elements that are inputs to competitive services subject to imputation; and
 - 3) The common costs that are to be allocated to competitive services pursuant to the relative LRSIC method. The portion of common costs that shall be recovered by competitive services in the aggregate shall be equal to the ratio of the amount in subsection (a)(3)(A) to the amount in subsection (a)(3)(B):
 - A) The sum of the LRSIC's of all competitive services, less the LRSIC's of noncompetitive tariffed elements that are imputed into the costs of services subject to imputation; and
 - B) The sum of the LRSIC's of all noncompetitive and competitive services of the carrier.
- b) The aggregate revenue test shall be provided in the following proceedings:
 - 1) In any proceeding approving, implementing, or evaluating an alternative form of regulation under Section 13-506.1 of the Act;

- 2) In a general rate case;
 - 3) In a proceeding involving the introduction of a new competitive telecommunications service;
 - 4) In a proceeding to reclassify a non-competitive telecommunications service to competitive;
 - 5) Notwithstanding the provisions of subsections (b)(1), (2), (3), and (4) of this Section, and upon good cause shown, the aggregate revenue test shall be provided, upon motion of a party and order of the Hearing Examiner, in any other proceeding approving, investigating or establishing rates, charges, classifications or tariffs for telecommunications services offered by a telecommunications service provider that provides both competitive and non-competitive services. Any motion requesting an aggregate revenue test shall be filed within thirty days of the docketing of the underlying proceeding. Responses to such motions shall be filed within fourteen days of the filing of the motion. Failure to file the motion within thirty days of the docketing of the proceeding shall be an independent ground for denying the motion. Failure to file responses within fourteen days of the filing of the motion shall be an independent ground for granting the motion. Factors to be considered in determining the propriety of granting such a motion shall include but not be limited to:
 - A) The length of time elapsed since the LEC last filed an aggregate revenue test;
 - B) The revenues projected to be generated by the service or services under consideration compared with total company service revenues;
 - C) The number of competitive and non-competitive services currently being offered by the LEC; and
 - D) The cost associated with performing the aggregate revenue test.
- c) The carrier may file a petition pursuant to 83 Ill. Adm. Code 200 for a waiver of the requirement to use the methodology required by subsection (a)(3) to apportion costs common to the provision of both competitive and

noncompetitive services. The waiver shall be granted within 90 days after the filing of a petition for waiver if the carrier can demonstrate that using the methodology required by subsection (a)(3) would be cost prohibitive or, in accordance with subsection (b)(3), would prevent a carrier from offering the new competitive service. To comply with Section 13-507 requiring a telecommunications carrier providing both competitive and noncompetitive services to recover the aggregate LRSIC's of its competitive services plus a proper and reasonable apportionment of common costs, a substitute allocator is required. The burden of proving the reasonableness of a substitute common cost allocation methodology shall be upon its proponent. The Commission reserves the right to authorize the use of superior methodologies apportioning common costs should they arise.

- d) For a carrier seeking approval of an alternative regulatory plan under Section 13-506.1 of the Act, the Commission shall make a finding of, or adopt a methodology for determining, the amount to be allocated for purposes of Section 791.200(a)(3) in any order approving an alternative regulatory plan.
- e) For the purposes of complying with ~~Section 791.200 subsections~~ (a) (3), (4) and (5), any carrier with more than 25,000 access lines that earns gross annual revenues of less than \$100,000,000 shall have 18 months from the effective date of this Part to comply with Sections 791.40, 791.50, 791.60, 791.70 and 791.80. In lieu of preparing a LRSIC study, the carrier may provide alternative cost data. Nothing herein shall relieve such carriers from the requirements of Section 13-507 of the Act.

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Illinois Commerce Commission :
On Its Own Motion :
Implementation of Section : 92-0211
13-507 of the Public Utilities :
Act, as amended by P.A. 87-856 :

ORDER

By the Commission:

On May 17, 1995, the Illinois Commerce Commission ("Commission") entered an order authorizing the submission to the Joint Committee on Administrative Rules ("Joint Committee") of the second notice of the proposed adoption of 83 Ill. Adm. Code 791, "Cost of Service." The rules will establish the principle of cost causation and delineate the requirements of the studies mandated by Section 13-507 of the Public Utilities Act. The procedural history of this docket is detailed in the order entered on August 17, 1994.

The proposed rules, as reflected in the order of May 17, 1995, were submitted to the Joint Committee and were considered at its meeting of June 20, 1995. The Joint Committee issued its certification of no objection at that time, ending the second notice period. The Commission can now adopt these rules.

The Commission, having considered the entire record and being fully advised in the premises, is of the opinion and finds that:

- (1) the Commission has jurisdiction over the parties hereto and the subject matter herein;
- (2) the recitals of fact set forth in the prefatory portion of this order are supported by the record and are hereby adopted as findings of fact;
- (3) the proposed rules at 83 Ill. Adm. Code 791, as reflected in the attached Appendix, should be adopted with an effective date of August 1, 1995;
- (4) the Notice of Adopted Rules should be submitted to the Secretary of State, pursuant to Section 5-65 of the Illinois Administrative Procedure Act.

IT IS THEREFORE ORDERED by the Illinois Commerce Commission that the proposed rules at 83 Ill. Adm. Code 791, as reflected in the attached Appendix, are adopted with an effective date of August 1, 1995.

IT IS FURTHER ORDERED that the Notice of Adopted Rules be submitted to the Secretary of State pursuant to Section 5-65 of the Illinois Administrative Procedure Act.

IT IS FURTHER ORDERED that this Order is final; it is not subject to the Administrative Review Law.

By order of the Commission this 19th day of July, 1995.

(SIGNED) Dan Miller

Chairman

(S E A L)

TITLE 83: PUBLIC UTILITIES
CHAPTER I: ILLINOIS COMMERCE COMMISSION
SUBCHAPTER f: TELEPHONE UTILITIES

PART 791
COST OF SERVICE

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AUTHORITY: Implementing Section 13-507 and authorized by Section 10-101 of the Public Utilities Act [220 ILCS 5/13-507 and 10-101].

SOURCE: Adopted at 19 Ill. Reg. , effective August 1, 1995.

Section 791.10 Carriers Subject to Cost Rules

This Part applies to telecommunications carriers providing both competitive and noncompetitive services, except those carriers that are specifically exempted in Section 13-504(b) of the Act. See Sections 13-202, 13-209, and 13-210 of the Public Utilities Act ("Act") [220 ILCS 5/13-202, 13-209, and 13-210].

Section 791.20 Terminology

- a) The long-run service incremental cost of a service ("LRSIC") is the forward-looking additional cost(s) incurred by the telecommunications carrier ("carrier") to provide the entire output of a service, including additional resources such as labor, plant, and equipment. Long-run service incremental cost excludes any costs, including common costs, that would be incurred if the service is not produced.
- b) Long-run costs are the economic costs over a planning horizon long enough so that there are no sunk inputs or costs.
- c) Forward-looking costs are the costs to be incurred by a carrier in the provision of a service. These costs shall

be calculated as if the service were being provided for the first time and shall reflect planned adjustments in the firm's plant and equipment. Forward-looking costs ignore embedded or historical costs; rather, they are based on the least cost technology currently available whose cost can be reasonably estimated based on available data.

- d) Volume-insensitive costs are costs that do not vary with changes in output.
- e) Volume-sensitive costs are costs that vary with changes in output of a particular service.
- f) A group of services that is referenced in this Part consists of those services that share a common network technology, element, or business function that is necessary and unique to the provision of all services in the group, and where that common network technology, element, or business function cannot be attributed to any one service or subgroup of services in the group.
- g) LRSIC of a group of services: Where additional resources are used in common and are necessary to provide a group of services, the long-run service incremental cost of that group of services includes the cost caused by the portion of such additional resources used solely by that group of services, including the LRSIC's of the individual services. Resources include labor, plant, and equipment.
- h) Common costs are those costs that a carrier must incur in order to operate that are not directly attributable to any particular service or to any group of services smaller than the group of services consisting of all the services of the carrier.
- i) Ad valorem taxes are those which are levied on the value of plant as determined by a governmental taxing authority (e.g., local property taxes levied against telephone plant).
- j) Capital costs are the recurring costs that result from expenditures for plant facilities which are capitalized. These annual capital costs include depreciation, cost of capital (return), and income taxes.
- k) Expenses are the cost or resources consumed in the production of revenue that are expensed rather than

capitalized in accordance with the Uniform System of Accounts applicable to the carrier (83 Ill. Adm. Code 710).

- l) Investment is a long-term capital asset (normally with a life ~~exceeding one year~~) which is depreciated rather than expensed in accordance with the Uniform System of Accounts applicable to the carrier (83 Ill. Adm. Code 710).
- m) Recurring costs are costs which will continue throughout the revenue producing life of the service. They include capital costs and expenses.
- n) Usable capacity is the maximum physical capacity of the equipment or resource less any capacity required for maintenance, testing or administrative purposes.

Section 791.30 Cost Causation Principle

Costs shall be attributed to individual services or groups of services based on the following cost causation principle. Costs are recognized as being caused by a service or group of services if:

- a) The costs are brought into existence as a direct result of providing the service or group of services; or
- b) The costs are avoided if the service or group of services is not provided.

Section 791.40 Methods and Assumptions

- a) The methodology and assumptions in this Part apply to cost studies required by this Part and the Act.
- b) Nothing in this Part shall require a carrier in any LRSIC study to account for, allocate, apportion, assign or reflect costs in any manner inconsistent with the Uniform System of Accounts (83 Ill. Adm. Code 710) or the Federal Communications Commission's Uniform System of Accounts (47 CFR 32).
- c) Since LRSIC represents a measurement of the costs to a carrier of providing a service or group of services on a prospective basis over a planning horizon long enough to have no sunk inputs or costs, when determining the LRSIC of a service or a group of services, use of the following assumptions and methods shall be presumed reasonable:

- 1) The LRSIC study shall be based upon the locations of, and planned locational changes to, the existing network configuration;
- 2) To the fullest extent possible, volume-insensitive costs shall be directly attributed to particular services or, where shared by a group of services, to that group of services, consistent with the cost causation principle;
- 3) Volume-sensitive costs shall be directly attributed to the service that causes the costs, consistent with the cost causation principle;
- 4) The LRSIC study shall reflect the demand for the entire service that is affected by the business or regulatory decision at hand. If the LRSIC study is for a new service, the study shall include all demand forecasts used in the computations.

Section 791.50 Cost Study Component Presentation

All cost studies provided by a carrier shall specifically identify the components outlined in Section 791.60 when such components are incurred and directly attributable to the service being studied. Further detail on each component shall be provided where identified.

Section 791.60 General Cost Study Components

- a) Service description. Each cost study shall include a definition of the service being studied. This definition shall be in terms of technical characteristics, functionality, application, targeted market, and availability. The elements of the service shall also be defined.
- b) Demand Information. The carrier shall provide the demand figures and/or forecast(s) used in the LRSIC computations and an explanation detailing the explicit and implicit assumptions and methods used to derive the figures and/or forecast(s). Demand forecasts for new services shall reflect total demand for the service, averaged over the projected revenue producing life of the service.
- c) Revenue life. Each cost study shall identify and provide a basis for the projected revenue producing life of the service or group of services.
- d) Economic life. Each cost study shall identify and